

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayner
Marshall Johnson
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner

In the Matter of Aquila Networks-NMU and
Aquila-Networks-PNG Depreciation Technical
Update

ISSUE DATE: June 27, 2007

DOCKET NO. G-007, 011/D-06-826

ORDER APPROVING DEPRECIATION
RATES AND LIVES

PROCEDURAL HISTORY

On June 5, 2006, Aquila, Inc. (Aquila) d/b/a Aquila Networks-PNG and Aquila Networks- NMU, filed the 2006 Depreciation Technical Update for both companies.¹

Aquila requested that the rates be made effective retroactive to January 1, 2006.

On July 1, 2006, Minnesota Energy Resources Corporation (MERC) purchased the assets and operations of Aquila Networks - PNG and Aquila Networks - NMU. MERC assumed Aquila's rates and tariffs, as well as its regulatory obligations and requirements.²

On November 2, 2006, and January 2, 2007, the Department of Commerce filed comments, recommending that the Companies' depreciation rates and methods be approved, but raising other issues for the Commission's consideration.

On June 14, 2007, the Commission met to consider the matter.

¹ Minn. Rules Part 7825.0500 - 7825.0900.

² The proposed depreciation lives and rates in this docket will apply to MERC effective July 1, 2006.

FINDINGS AND CONCLUSIONS

I. Annual Remaining Life Depreciation Studies

PNG and NMU filed their most recent five-year depreciation studies in 2004 to comply with the Commission's requirement to file their respective five-year studies in the same year.³ Annual filing of remaining life studies, which adjust the remaining lives for the passage of time, as well as for the previous year's addition and retirement activity, are required in intervening years.

The Companies' filing represents the annual remaining life depreciation studies filed by the Companies. Neither Company proposed changes to the parameters used to calculate depreciation rates.

In its filed comments, the Department recommended that the Commission approve the Companies' proposed remaining lives, existing salvage rates, and resulting depreciation rates.

Based on the Department's recommendation regarding depreciation rates and methods, the Commission finds that the Companies have satisfied the filing requirements set forth in Minn. Rules, Part 7825.0700. The Companies have proposed no changes to the underlying life or salvage parameters, and the Commission agrees that, in general, the proposed remaining lives and salvage values are reasonable.

The depreciation rates and lives certified in this Order are binding on all future rate proceedings and remain in effect until the next depreciation certification or until otherwise changed by the Commission. Minn. Rules, Part 7825.0900. Specific dollar amounts of gross plant, depreciation reserve, annual accrual and dollars to be allowed as additional depreciation are subject to audit, however, and the inclusion of items in this Order for depreciation purposes does not guarantee their inclusion in rate base and the income statement for ratemaking purposes.

Companies are required by law to review their depreciation rates annually to ensure that they are still generally appropriate. Minn. Rules, Part 7825.0600, subps. 2 and 3.

II. Sale of PNG's Production Plant

In its filed comments, the Department also raised, as a collateral issue, the sale of PNG's production plant in 2005, arguing that: 1) Aquila did not file for Commission approval of the sale, as required under Minn. Stat. § 216B.51; and 2) Minnesota's share of the gain on the production plant should flow back to PNG's firm ratepayers.

At the Commission meeting on June 14, 2007, the Department announced that it had changed its opinion from that set forth in its November 2, 2006 and January 2, 2007, comments, regarding whether ratepayers or Company shareholders should withstand the gain (or loss) on the sale of the

³ Docket No. G-007, 011/D-00-577 (September 5, 2000).

peaking plant land, a non-depreciable asset. At the meeting, the Department stated that it had been persuaded by the analysis in the Commission staff briefing papers that, as the ratepayers bore a significant risk, they should be the ones to benefit from any gain on the sale of the land.

Based on this change in the Department's position from that asserted in its filed comments, the Commission will request an additional round of comments from the parties prior to considering the matter.

ORDER

1. The Commission certifies the remaining lives, existing salvage rates and resulting depreciation rates, retroactive to January 1, 2006.
2. The Commission delegates to the Executive Secretary the authority to set time limits for additional comments from the parties.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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